B5350-2

The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

MONDAY, OCTOBER 28, 1985 VOLUME XXII, NUMBER 33

Inflation Is Kept In Check . . .

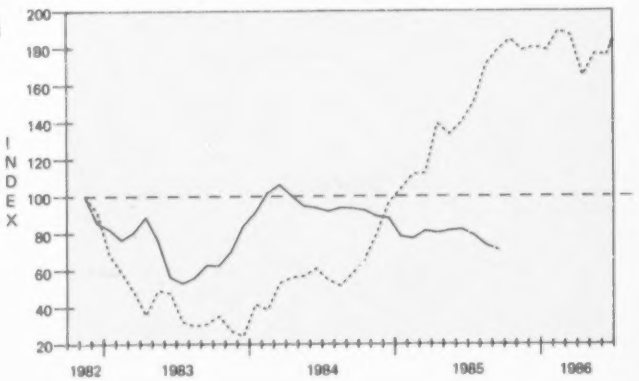
As the economic recovery rapidly approaches its third anniversary, it is encouraging to note that the rate of inflation is still relatively low. Usually at this point in a business expansion, the rate of inflation would be picking up. But during the current expansion, which is at least average in strength, the rate of rise in consumer prices has been decreasing for about a year and a half (see chart). During the 12 months ending in September, retail prices, as measured by the consumer price index (CPI), rose by only 3.2 percent—the smallest 12-month advance since late 1983 and one full percentage point below the increase of 4.2 percent during the previous 12 months.

This 3.2 percent rise is all the more interesting in view of the earlier strength in business activity, the continuing stream of Federal budget deficits and rapid money supply growth. And with the producer price index (PPI), which measures price changes at the wholesale level, up only 0.2 percent for the year ending this September—the smallest 12-month rise in over 20 years—the near-term outlook is for continued low inflation. One of the main contributors to the low inflation rate is falling commodities prices. The PPI for unprocessed or crude materials has fallen over ten percent in the year ending September, while prices of farm products dropped 13 percent over the same period. The other main factors are sagging energy prices, modest wage growth and increased productivity. As for the dollar, it remains strong, standing 54 percent above its mid-1980 low point on a trade-weighted basis in spite of the 20 percent drop in its value from its February peaks.

Consumer spending between the two broad categories of consumer purchases, goods (food, clothing, appliances, cars, etc.), and services (medical care, transportation, housing and energy services), is divided almost evenly—yet the inflation trends in these categories are strikingly different. The latest 12-month change in the prices of goods was only 1.8 percent, the smallest rise in almost 20 years. Just 1½ years earlier, the 12-month increase was 4.5 percent—more than double the current rate. In the services category, by contrast, prices have risen 4.7 percent over the past 12 months, and the 12-month price increase has been running in the five-to-six percent range for the past 18 months.

The main reason for this difference is lower-priced imports. The strong dollar and very low labor costs overseas have made quite a few imported goods cheaper than similar items produced domestically. This has forced domestic goods producers to hold down price increases in order to be more competitive. But, services are not generally imported and therefore, the providers of these services have not faced the same price competition.

12-MONTH PERCENT CHANGE IN CONSUMER PRICE INDEX
CURRENT RECOVERY (LINE), AVG. OF 4 COMPARABLE RECOVERIES (DOT)
(TROUGH=100)



. . . By Sagging Food And Energy Costs . . .

Food prices are probably of the greatest concern to most people since one-fifth of the average consumer's budget is devoted to purchases of food and beverages, making it the largest goods category by far. Consumers currently are enjoying the lowest rate of inflation for food items since late 1983. Food prices advanced only 1.8 percent in the 12 months ending in September, down from a four percent rise in the previous 12 months. One of the main reasons for the low rate of food price inflation is that the prices of such basic commodities as wheat and corn have dropped over 16 percent from their recent peak in February due to huge supplies both in the U.S. and elsewhere. This is not expected to change in the near future, boding well for con-

Copyright 1985
Manufacturers Hanover
270 Park Avenue, New York, N.Y. 10017

tinued low inflation for food items. One source of price increases might come from meat prices, however, as tighter livestock supplies may well push up beef prices later this year.

The cost of energy items, which accounts for more than ten percent of the average consumer's budget, has gone up only 0.8 percent over the past 12 months. While this is a fraction of the 13½ percent increase for all of 1981, just a few months ago energy prices were showing declines on a year-over-year basis. Energy prices are being held down by an abundant supply of oil, whose price is expected to remain fairly stable at least through the winter months (Financial Digest—September 30, 1985). The impact of these two categories, food and energy, on the overall level of inflation can be seen by looking at a price index which excludes them. Without these two components, which account for almost one-third of the CPI, the 12-month increase of the CPI would be almost one percentage point higher—3.9 percent—instead of 3.2 percent.

Although for most people medical care represents only a small portion of their yearly outlays, as the population ages and the need for health care grows, medical costs will become of greater concern. It is therefore encouraging to note that the 12-month rise in health care costs dipped to 5.5 percent by February 1985—the smallest such gain in over 11 years. And although this rate of rise has since inched up to 6.5 percent, it is still only half the rate of rise

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/23/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	179.367	+ .473	+22.722
Loans to Depository Inst.	1.301	+ .366	– 4.344
Float	.847	+ .372	+ .168
Total Reserve Bank Credit	195.542	+ 1.840	+20.376
Treasury Deposits with Federal Reserve Banks	3.650	+ .705	+ .514
Currency in Circulation	189.420	– .379	+13.033
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	122.909	– 2.195	+ 3.851
	10/23/85		
Member Bank Reserves:			
Total Reserves Held	43.784	+ .005	+ 5.941
Excess (Deficiency)	.743	+ .075	+ .327
Net Free Reserves	.274	+ .374	+ .661

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1 (10/14/85)	605.1	+ 10.9‡	+ 11.1‡
M2 (September '85)	2,528.2	+ 8.9	+ 9.5
M3 (September '85)	3,163.4	+ 7.8	+ 9.0
Domestic Nonfinancial Debt (2nd Q'85)	6,317.3	+ 12.2	+ 13.6

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/25/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	7.21%	7.39%	7.47%
* Federal Agencies	8.41	8.85	9.26
* Municipal Notes—High Grade (46% Taxable Equivalent)	8.80	9.26	9.95
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	7.93	8.02	8.15

‡Finance Company Paper—Prime		‡* Bankers' Acceptances	
5- 14 days	7.85%	Nov.	7.95%
15- 29 days	7.85	Dec.	7.90
30- 59 days	7.85	Jan.	7.90
60- 89 days	7.85	Feb.	7.90
90-179 days	7.82	Mar.	7.90
180-239 days	7.80	Apr.	7.90
240-270 days	7.80		

‡Industrial Paper—Prime			
30- 89 days	7.85%	†Federal Funds Effective Rate	7.85%
90-120 days	7.80		

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	3rd Q'85	$ 3,916	$ 3,853	$ 3,695
Gross National Product (1972 Dollars)*	3rd Q'85	$ 1,685	$ 1,671	$ 1,645
Percent Change, Annual Rate	3rd Q'85	3.3	1.9	1.6
Change in Consumer Prices*	Sep '85n	2.4%	2.4%	4.8%
Change in Producer Prices*	Sep '85	– 7.2%	– 3.6%	0.0%
Civilian Employment (Thousands of Persons) †	Sep '85	107,544	107,172	105,394
Unemployment as % of Civilian Labor Force†	Sep '85	7.1%	7.0%	7.4%
Personal Income*	Sep '85	$ 3,209	$ 3,199	$ 3,068
Leading Indicators Composite Index (1967=100)†	Aug '85	170.1	169.0	164.4
Industrial Production Index (1977=100) †	Sep '85	124.7	124.8	123.3
Net Change in Consumer Installment Credit †	Aug '85	$ 6.31	$ 6.25	$ 6.02
U.S. Merchandise Trade Balance †	Aug '85	–$ 9.90	–$ 10.51	–$ 10.09
Plant and Equipment Expenditures*	4th Q'85	$387.40(a)	$389.54(a)	$368.29
Private Housing Starts (Thousands of Units)*	Sep '85	1,583	1,746	1,669
New Construction Expenditures*	Aug '85	$ 344.0	$ 340.2	$ 321.2
Total Business Inventories †	Aug '85	$ 577.9	$ 580.1	$ 561.7
Total Business Sales †	Aug '85	$ 429.1	$ 422.5	$ 413.3

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

posted just 3½ years ago. The new regulations imposed two years earlier have changed both the cost and pricing structure of the health care industry, shifting the responsibility for cost control from the government to hospitals, and has already resulted in tighter cost control, even though this program will not be fully implemented until 1987.

. . . And Modest Wage Increases

The dramatic slowdown in U.S. wage gains has been crucial to keeping inflation in check, since labor costs represent two-thirds of business operating costs. In the third quarter of this year, the index of average hourly earnings for nonfarm production workers rose at an annual rate of only 1.2 percent compared with the second quarter—the lowest quarterly gain since the Commerce Department started keeping records on this index in 1964. The index is currently only 2.7 percent above last year's third quarter level. Just four years ago, the year-over-year comparisons reached ten percent.

A reignition of the wage-price spiral is not likely anytime soon as the forces behind the wage containment are still at work. Unemployment, though declining, is still high for a recovery. Workers are less worried about inflation than they were earlier in the business expansion. And because of continued fierce competition from imports and non-union rivals in deregulated industries, even thriving unionized companies are keeping a tight grip on labor costs. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (10/9/85)	158,691	+ 506	– 1,595
New York City (10/16/85)	33,420	– 258	– 993
Commercial Paper (10/16/95)	284,672	+ 2,374	+51,318

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/9/85)	252,892	– 1,499	+ 4,098
New York City (10/16/85)	59,947	+ 245	– 4,168

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (10/9/85)	692,815	– 2,975	+ 73,351
New York City (10/16/85)	152,323	– 1,247	+ 12,314

Financial Markets

	Friday 10/25/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	7.23%	– .16	– 2.36
180-Day Bills†	7.41	– .21	– 2.62
Longest Bills†	7.49	– .39	– 2.92
Recent Issues:			
10s 10/31/87 (When Issued)	8.86	NA	
9⅝s 6/30/89	9.43	+ .06	
10½s 8/15/95	10.19	+ .05	
10⅝s 8/15/15	10.47	+ .05	
Municipals:			
Bond Buyer—20 Bond Index* (10/24/85)	8.95%	– .17	– 1.10
Blue List Total ($ Million)	$1,706	+ $ 22	+ $ 163
30-Day Visible Supply ($ Million)	$4,361	– $580	+ $1,841
Total	$6,067	– $558	+ $2,004
Corporates:			
Moody's Aa Composite (10/24/85)	11.40%	– .06	– 1.53
30-Day Visible Supply ($ Million)	$1,845	– $ 37	+ $ 565
Stocks:			
Dow-Jones Averages:			
Industrials	1,356.52	– 12.32	+ 151.57
Transportation	649.58	– 11.00	+ 126.60
Utilities	159.16	+ 4.72	+ 17.59
65 Stocks	550.13	– 2.96	+ 74.01
Standard and Poor's 500 Stocks	187.32	+ .48	+ 22.23
N.Y.S.E. Composite Index	108.36	– .49	+ 13.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	110,812	+ 44	+ 22,426

* 46% Taxable equivalent 16.57%.

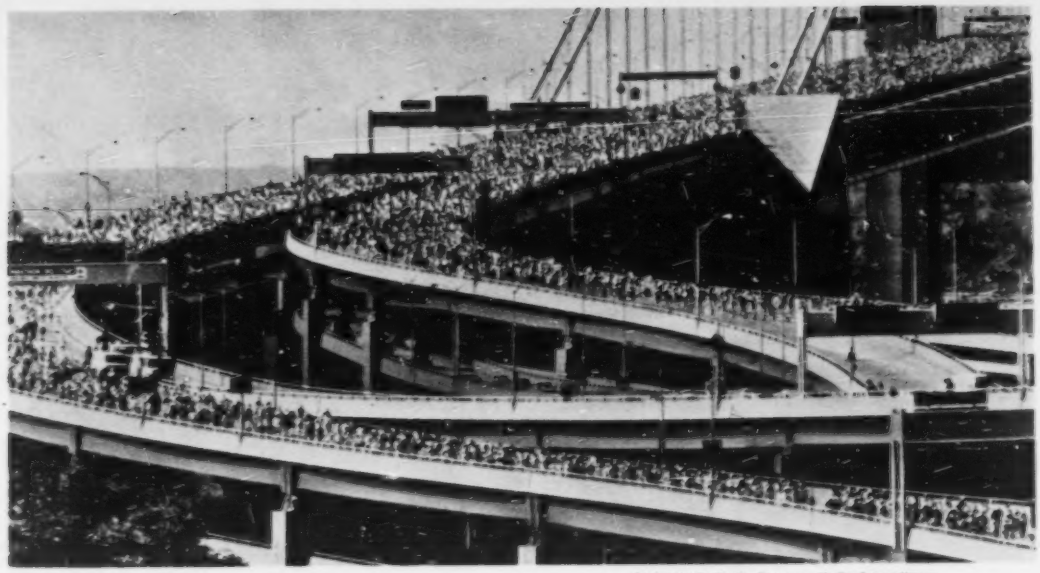
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/25/85	Week Ago
Overnight	7.81%	7.88%
1 month	8.06	7.94
3 month	8.13	8.06
6 month	8.25	8.19
1 year	8.56	8.50
EURODOLLAR BONDS		
Average Yield		
Medium Term (5 to 7 yrs.)	10.00%	10.00%
Long Term (7 to 15 yrs.)	10.50	10.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/25/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01865	53.6200
Canada	.7320	1.3662
Denmark	.1045	9.5650
France	.1238	8.0765
Germany	.3777	2.6477
Italy	.0005594	1787.50
Japan	.004609	216.98
Mexico	.002421	413.00
Netherlands	.3348	2.9866
Switzerland	.4604	2.1718
U.K.	1.4305	.6991



The New York City Marathon. Co-sponsored by Manufacturers Hanover.

The marketplace demands sustained effort.

Manufacturers Hanover strives.

Winning a 26.2 mile marathon takes planning, positioning, and endurance. And in much the same way, Manufacturers Hanover's planning, positioning, and willingness to accept challenges are paying off significantly.

For example, our subsidiaries now have more offices nationwide than any other bank holding company, giving us instant access to both large and middle market companies. This enables us to provide other financial services besides banking—factoring, equipment financing, and mortgage lending.

But the race is far from over. As the need arises for new kinds of financial relationships, Manufacturers Hanover will be prepared to supply whatever the national—and international—marketplace demands. Consider the source.

MANUFACTURERS HANOVER
The Financial Source® Worldwide

Member FDIC

The Manufacturers Hanover
Financial Digest
Bank Window, Church St. Station
New York, New York 10015

First Class Mail
U.S. Postage
PAID
New York, N.Y.
Permit No. 585

00208000006990 C 939 CONGR0001
SRI ACQUISITIONS
CONGRESSIONAL INFORMATION
SERVICE, INC.
4520 EAST-WEST HWY., SUITE 800
WASHINGTON, DC 20014